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Gairdner, Charles

Mr. Goschen's scheme for reform of the bank acts

Glasgow

1892

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MR. GOSCHEN'S SCHEME FOR REFORM OF THE BANK ACTS.

AN ADDRESS

DELIVERED TO

THE INSTITUTE OF BANKERS IN SCOTLAND,

JANUARY 7th, 1892.

BY

CHARLES GAIRDNER, LL.D.,
PRESIDENT OF THE INSTITUTE.

GLASGOW:
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Publishers to the University.
1892.

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MR. GOSCHEN'S SCHEME FOR REFORM OF THE BANK ACTS.

I PROPOSE to offer you some remarks on Mr. Goschen's address of the 2nd December, in which he has further developed his plans for the reform of the Bank Acts. On this occasion he has devoted himself exclusively to the question of increasing the central stock of gold by means apart from the reserves of bankers, and he has explained in some detail how he hopes to accomplish this by an issue of one-pound notes. He also aims at introducing a slight amount of elasticity into the Acts. The scheme presents several points requiring serious consideration, and, while it is to be earnestly desired that Mr. Goschen's main object,—the adding to the gold reserves,—may be completely attained, it is necessary to see that the plan is based on principles that are sound and practicable, or the result may be an increase of weakness rather than of strength.

The plan is as follows :—

(*a*) The provisions of the existing Act, by which the Bank of England is authorised to issue notes of

£5 and upwards against securities and gold—the limit of the former being at present £16,450,000—are to be continued undisturbed.

(*b*) When the gold in the Issue Department shall exceed £21,550,000—this being the average sum held during the ten years ending in 1890—notes of £1 may be issued from the Department, provided that there shall be held in the Department, in excess of the sum of £21,550,000, and ear-marked to the £1 notes, gold to the value of four-fifths, and Government securities to the value of one-fifth of the £1 notes so issued.

(*c*) In the event of the addition to the stock of gold through the issue of £1 notes bringing up the aggregate stock to £30,000,000—a point which would be reached by the issue of about £10,000,000 of £1 notes—certain additional powers of issue will come into operation available in times of emergency. This would be by extending the right of issue against securities, on condition, however, that a high rate of interest, to be fixed by the Act, should be payable by the Bank to the State on the extended issue.

By the means thus described Mr. Goschen hopes to attain the two objects he has in view, viz., "an increase of the stock of gold at the centre, and some relaxation in the direction of elasticity in the Bank Charter Act."

Let us now see how this plan may be expected to work in times of financial pressure, for it is in such times only that the test of its usefulness will come into operation. Let us assume that the Issue Department holds gold to the extent of £8,000,000 in excess

of the stipulated £21,550,000, and that against it and £2,000,000 of Government Securities there have been given out to the Banking Department £10,000,000 of £1 notes. Let us further assume that these enjoy all the popularity desired for them, and that the notes have passed from the Banking Department into the pockets and tills of the people. In this position of affairs there springs up a sudden and abnormal demand for gold—whether from adverse foreign exchanges or from internal panic is immaterial—from what source is the Bank to meet the demand? They hold in all £29,550,000 of gold, of which, however, £8,000,000 is ear-marked to the £1 notes, and cannot, therefore, be used for any other purpose than the retiring of these notes. The £1 notes being popular don't come in, and there is, therefore, only the original £21,550,000 available to meet the abnormal demand.

In what respect, then, is the reserve made stronger through the issue of £1 notes? It appears to me to be stronger in no respect whatever. It may, perhaps, be said that there will be a contraction of notes of the larger denominations corresponding to the demand for gold, but this expectation is at variance with experience. No such contraction took place on any one of the three occasions on which the Bank Act was suspended, and on the last occasion there was actually an expansion of over £3,000,000. To expect a contraction of the note circulation because of a demand for gold to meet adverse exchanges or internal demand proceeding from panic is to adhere blindly to the old fallacy on which the Bank Act

proceeded, as I endeavoured to show in a paper[1] read last year. Sir Robert Peel's contention was that when the exchanges turned against the country, the Banks of Issue ought to contract their circulation, and he complained that instead of doing so they allowed it to be increased. In point of fact they have no such power as that attributed to them. A demand for gold from abroad causes a diminution, not in the circulation, which is regulated by wholly different influences, but in the deposits, and the true mode of counteracting it is to raise the rate of discount, whereby prices are lowered, and imports of gold take the place of imports of other commodities. It is because of this, and to secure the necessary time for the remedy to operate, that reserves are imperatively required, and must be freely available to meet all demands made upon the Bank.

My first objection, then, to Mr. Goschen's plan is that the addition which it will make to the central stock of gold is not an addition *to the reserve.* It is to be ear-marked to a newly created liability of the Bank, and it is inconsistent with the nature of a reserve that it should be ear-marked to any particular class of obligations. A reserve is intended for use in meeting the Bank's liabilities in the day of need, and whether used or not must be available for use, or it ceases to be a reserve in any sense—material or moral.

While my first objection to Mr. Goschen's plan thus shows its ineffectiveness in practice, my second

[1] *Vide* "The Making of the Gold Reserves," page 8. Jas. MacLehose & Sons, Glasgow.

goesdeeper, and attacks the principle he proposes to introduce of issuing notes secured over gold. It sometimes has been assumed that to pledge, or, as we say in Scotland, to hypothecate, by Act of Parliament the gold and securities in the Issue Department against the notes would be to complete the carrying out of Sir Robert Peel's ideal. I venture to say there is no justification whatever for this supposition. There is not a word in the Bank Act to support it. The division of the accounts into Issue and Banking sections may serve to explain how such an idea subsequently arose, but it is all but impossible that a principle involving so fundamental a change, unrecognised before in England, or, as far as is known in any other country, would have been intentionally slipped into an Act of Parliament without full discussion. This view is confirmed by the fact that in the Bank Acts of 1845 for Scotland and Ireland, which were declared to be based on the same principles as that of 1844, there is no reference whatever made to securing the notes, in the sense of pledging securities, nor was any such suggestion made in the debates in either House, nor is a form of accounts prescribed to show the notes separately from other liabilities. I therefore feel compelled to dissent altogether from Mr. Goschen when he declares "he is not quite sure that the suspension of the Bank Charter Act is not a violent breach of a contract with holders of existing notes, *to whom the bullion of the Bank of England is practically pledged.*" I submit that Parliament has made no such pledge ; that if the principle were now adopted with reference to £1 notes it would

be done for the first time ; that we should then have two kinds and qualities of notes issued by the Bank of England, the one secured the other unsecured, tending to the disparagement of the existing notes which now rightly enjoy the very highest credit. I farther maintain, for the reason to be presently stated, that the principle is unsound in itself, and, if adopted, would at a time of financial pressure add needlessly and gratuitously to the difficulties to be overcome.

It appears to be forgotten, or not clearly apprehended, that a promissory note secured over gold is no longer a note, it is a *warrant ;* and a warrant for £1000 is a much better thing than a bag of a thousand sovereigns, for, while of equal intrinsic value, the warrant is infinitely more convenient and more capable of being securely concealed. In a time of panic, if a depositor with £1000 at his banker's gets alarmed and withdraws his money, he, under a natural or non-artificial system, gets paid in gold, which is the single thing he is entitled to demand. He no sooner reaches the street than he discovers the necessity of replacing the gold in a Bank. He dare not retain it for fear of being robbed, and thus he is at once brought face to face with the fundamental principle of banking, viz., the instinctive desire to deposit one's coin in a place of security. In this way the coin is returned to its natural use as part of the gold reserves of the country. But give the panic-stricken depositor the choice of gold or gold warrants and he will assuredly demand the warrants. These he can place in his pocket, or stamp with his name, and wait in security the return of quiet times.

Now the difference to the Banks, and through them to the public generally, of these two modes of payment is all-important. In the first case the extent to which gold may be withdrawn is limited and controlled by the impossibility of hoarding safely and suddenly any large quantity. All experience of panics in modern times supports this view, and goes to show that panic can always be arrested by the presence of a comparatively small amount of gold actually available. On the other hand if bank notes are to be converted into the equivalent of gold warrants there is no assignable limit to the demand which *might* arise, short of the aggregate of banking liabilities, and to all who know the unreasoning character of panic it will require no effort of imagination to foresee how easily the whole banking and trading system of the country might, in any great commercial convulsion, be thus brought into peril. On these grounds I submit that, however plausible and attractive at first sight the idea of notes secured on gold undoubtedly is, it cannot be put in practice without introducing a new and grave danger into our national finances.

To these two serious objections to Mr. Goschen's plan I may add the remark that to attempt to popularize £1 notes by granting them a special security is to mistake the nature of the difficulty to be overcome. This does not proceed from any misgivings as to the convertibility of the Bank of England note. No such doubt exists or is likely to arise. The difficulty rests in the fact that to substitute the paper note for the gold sovereign now carried in the pocket is mainly an

affair of personal taste and habit. This has got to be changed, and it is a process which from its nature must be gradual, and which may more probably be retarded than accelerated if an inducement is held out in the superficially attractive form proposed by Mr. Goschen. It is, I imagine, quite certain that the Bank of England acting alone could not successfully accomplish this operation, because they are not in touch with the people. It will only have a chance of success if entrusted to the deposit Banks, who in the provinces are in direct contact with the people through officials, who, to a large extent, are the trusted advisers of the people in their daily monetary affairs.

While I have thus found it necessary to offer grave objections to the particular plan of issuing £1 notes proposed by Mr. Goschen, I cannot but regard it as unfortunate that, for the present at least, it seems to be criticised adversely without the suggestion of any amendment or other alternative. The sentimental dislike in London to £1 notes has been allowed to outweigh the vitally important demand for an increase in the central gold reserves, and our national humiliation of last year seems to be already forgotten. Now I, for one, adhere to the opinion that in England, as in Scotland, Ireland, France,[1] Belgium, Germany, and the United States, not to mention our own colonies, a preference for paper money over coin would in all probability grow up throughout the industrial districts if the change were properly gone about, and if the machinery of the deposit Banks were brought into

[1] In France the demand for 50 franc notes is always in excess of the supply.

operation in its behalf by the Banks being appointed agents, for issuing purposes, of the Bank of Issue, on terms safe for the latter and satisfactory to the former. I hold that we might thus immensely strengthen our central reserves by withdrawing gold from the extremities, where it is performing a duty which can be equally well done by notes, and that, in combination with an elastic system which allowed for the *natural* fluctuations in the active circulation at particular seasons, we should be able largely to diminish those oscillations in the rate of discount which so perplex and annoy the regular trader. I believe that this could be effected without causing the export of a single sovereign, but at same time, I fully recognise that such a scheme cannot be forced, and I also admit that from the point of view of the Londoner, accustomed to the sovereign, and entertaining a dislike to the £1 note, it may fairly be asked whether there be not some other way by which the objects aimed at can be attained. To this I answer, Yes, there is another way, and although I consider it would be rendered more complete and efficacious, as well as more economical, by an issue of £1 notes, that course is not essential, and it is possible without it to accomplish all that Mr. Goschen in his last address seemed to contemplate as necessary. This plan, I believe, may be found by extending to the circulation of the United Kingdom the general principle which Mr. Goschen would apply to an issue in England of £1 notes, and by blending with the Act of 1844 the more elastic regulations of the Acts of 1845.

Mr. Goschen proposed to find the new gold by means of an issue in England of £1 notes. He assumed that if one-fifth of the issue was represented by securities, and four-fifths by gold, the revenue from the securities would provide for the cost of maintaining the notes, while gold, representing the other four-fifths, would be set free and despatched to the centre. This involved the supposition that there was to be little or no profit allowed to the issuing bank, and if no profit, then, presumably, no taxation. But if this principle be a reasonable one for £1 notes is it not equally so for all notes? If the £1 notes, after providing for the cost of their own maintenance, are to be devoted to the creation of a gold reserve, ought not £5 notes to be similarly treated, and those also of larger denomination? At present they yield a profit to the issuers, and more than £300,000 per annum to the State, that is to say to the people, who, as Mr. Goschen showed at Leeds, are the persons chiefly to be benefited by the strengthening of the gold reserves. Let us see what would be the effect of extending this principle to the circulation of the United Kingdom. It would involve the surrender, gradually, over a series of years, of the taxation on notes, which yields a sum equal to somewhat less than one-half of one per cent. of the imperial revenue; but I think it can be shown beyond question that the gain to the nation by the stability given to the national finances would be infinitely greater. It must be understood that I offer no opinion as to whether the particular proportions of one-fifth and four-fifths are suitable to the case, and this and all similar questions of detail are for the present reserved.

The active circulation of the Bank of England may be stated at - -	£25,000,000	
off one-fifth, - - -	5,000,000	£20,000,000
Average Scotch circulation, say -	£6,000,000	
off one-fifth, - - -	1,200,000	4,800,000
Average Irish circulation, say - -	£6,000,000	
off one-fifth, - - -	1,200,000	4,800,000
English Provincial, say - - -	£2,000,000	
off one-fifth, - - -	400,000	1,600,000
Suggested Contribution by Banks of Issue to gold reserves - - - - - - - - -		£31,200,000
as compared with existing contribution.		
Bank of England, -	£25,000,000	
less authorised, -	16,500,000	£8,500,000
Scotch, - - - -	£6,000,000	
less authorised, -	2,676,000	3,374,000
Irish, - - - -	£6,000,000	
less authorised, -	4,750,000	1,250,000
English Provincial excess nil, - - - -		13,074,000
Suggested addition to gold reserves by Banks of Issue, - - - - - - - - -		£18,126,000

Here, then, we appear to have a scheme capable of yielding an addition to the gold reserves equal to what Mr. Goschen would have obtained from an issue of £22,500,000 of £1 notes, and that without any increase in the liabilities of the issuing Banks. So large an addition to the stock of gold would certainly cause pressure in the gold market if carried out at once, because this accession, unlike Mr. Goschen's, could hardly, to any great extent, come from the

internal circulation, and would therefore require to be imported from abroad. If, simultaneously with its introduction, Mr. Goschen's £1 note scheme were carried out, the lapsed proportion of one-fifth of gold, over whose escape he laments, would be effectually retained within the country and made to play an important part in the operation. But, if this may not be, it must be recognised that so large an operation as the importation of £18,000,000 of gold could only be carried out, with due regard to all the interests affected, by extending it over a series of years. This, however, is a question of detail, and the scheme is not only in itself practicable, but it would fully accomplish the more important of the two objects Mr. Goschen has set before him.

I now assume that it is possible to make an addition to the gold reserves of £18,000,000, by applying the principle proposed by Mr. Goschen for £1 notes to the note circulation of the United Kingdom. I may also assume that the contribution of the country Banks of Issue may be held partly in the country, as at present, and partly at the Bank of England,—London being the place where the engagements of the country Banks have chiefly to be met, and where, therefore, a large portion of their reserves is most conveniently maintained. I, of course, assume that there is to be no ear marking of gold to notes; and, further, I am now to assume that an elastic principle, similar to that of the Scotch and Irish Acts, shall be made applicable to the Act of 1844. Under this the Bank of England would have the same unlimited power of issue as is

enjoyed by the Banks in Scotland and Ireland, but on the same condition, viz., that there should be held gold and silver (in the proportions legally defined) to an amount corresponding to four-fifths of the active note circulation, ascertained, not day by day as at present, but on the average of every four weeks.

In this way, as it appears to me, if a £1 note issue is to be rejected by England, the objects Mr. Goschen aims at can be accomplished with the minimum of variation from the principles laid down by Sir Robert Peel.[1] The addition made by the Banks of Issue to the reserve would equal all that Mr. Goschen, in his speech, has anticipated from the £1 notes. The degree of elasticity conferred would not be everything that could be desired, but it would be an important step in the right direction, and would greatly loosen the fetters in which the Issue Department of the Bank of England is at present held. The proportion of the note circulation to be represented by gold would be so fixed as to allow the Banks a moderate remuneration for the work they may do, and the State would forego the profits now derived from a source which thereafter would be directed to a purpose infinitely more urgent and more advantageous, for it would

[1] I have found myself hampered in the discussion by the desire, more dear to statesmen than to practical bankers, to vary as little as possible from Sir Robert Peel's principles, and I desire to protect myself from being thought to be an unqualified approver of the *average* principle. I believe the automatic German system, by which interest is paid to the State on the sum by which at any time the gold reserve may fall short of the legal requirement, to be equally effective and to rest on a sounder principle.

raise the most stable portion of our gold reserve from £13,000,000 to £31,000,000, and so give to the foundations of our finance a solidity, greatly needed, of which the whole nation would experience the advantage.

At this point I might have closed my address, but that in addressing the Institute of Bankers in Scotland, it may be thought the bearing of my suggestions on the Banks and the general public of Scotland ought to have received more attention than I have yet given to it. As regards the Banks, I have shown that, if Mr. Goschen's proportions were adopted, they would then, on average, contribute to the gold reserves of the country £4,800,000 instead of £3,300,000 as at present, an increase of £1,500,000. This at 3 per cent would involve a loss of income of £45,000 per annum, but, on the other hand, there would no longer be paid stamp or license duty, and this, although not affecting the Banks in equal degrees, would probably prove to be on the whole a fair equivalent. Apart, therefore, from the difficulty of procuring the gold, to which I have already referred, the scheme as applied to Scotland might be capable of adjustment without much friction. But it must be observed, recalling Mr. Goschen's demand of last year, that the Banks should "take their share" in the work of maintaining the reserves, that, in so far as the note issues are concerned, Scotland is already far in advance of England in this respect. At present the average contribution of gold proceeding from the note issues in Scotland is about £3,300,000. If an equivalent sum were contributed

by England it would amount, taking the test of population as the guide, to seven times that sum or £23,100,000, whereas the sum produced by the note circulation in England in aid of the reserve is only £8,500,000. If, instead of population, the test of comparative wealth were applied, the contribution would be at least ten times that of Scotland or £33,000,000. Moreover, if I am approximately correct, as I believe I am, in stating that the State draws from the aggregate note circulation somewhat over £300,000 per annum, and that Scotland's contribution toward this is £45,000, it appears that the poorer country gets no relief from taxation on notes, notwithstanding the greater proportion of gold she provides against them, and thus it becomes clearly apparent that, if the note issues are to be regarded as a fund for maintaining the gold reserves, as they are all but universally admitted to be, the duty rests on our wealthy southern neighbours, primarily, to make up their contribution to the reserves from this source to a sum proportionate to that already contributed by Scotland. If this be not done by an issue of £1 notes some other plan must be found, and if a better than that I have suggested is not forthcoming I would venture to press it on their consideration, and to invite their aid in upholding the principle that the first and paramount claim on the note circulation is for the provision of National Reserves of gold, and not for the increase of the ordinary revenue of the State.

I have now to consider how far the general interests of Scotland would be affected by the scheme

presented, and I daresay I shall be told by some critics that I have put forward an ingenious plan for riveting in perpetuity "the virtual monopoly" which the Banks are popularly supposed to have turned ruthlessly to their own advantage. To this I answer, in the first place, that the monopoly was imposed on the Banks in 1845, contrary to their expressed desire, and that it rests entirely with Parliament to remove it when it sees fit. In so far as I am aware the Banks have never had but one wish on that subject. In the second place, the grievance exists only in the imagination of critics who do not take the trouble to examine the published facts. That there have been, and probably will continue to be, petty reforms requiring adjustment from time to time is a fact which proceeds mainly from the changing conditions under which the trade of the country is carried on, but that the Banks have made use of their "virtual monopoly," for the purpose of unduly increasing their own profit, is an allegation which is easily disproved by referring to the following figures compiled from the balance sheets of the Banks, published over a period of 20 years. They have been grouped for the purpose of exhibiting at a glance the progress of the Banks, on the average of each quinquennium from 1872 to 1891 inclusive. They show 1st,—The Capital and Reserved Profits; 2nd, Liabilities to the public; 3rd, Profits earned; 4th, Pure banking profit, after deduction of 4 per cent. on the proprietary funds; 5th, The percentage borne by the pure profit to the liabilities to the public. There is also shown the progressive extension of Bank offices.

STATEMENT COMPILED FROM THE PUBLISHED BALANCE SHEETS OF THE BANKS IN SCOTLAND

Showing Average Results in each Quinquennium, 1872 to 1891 inclusive.

000 omitted thus—£1,000=£1,000,000.

FROM	Number of Offices.	LIABILITIES.						PROFITS.				
		TO PROPRIETORS.			TO THE PUBLIC.						PURE BANKING PROFITS	
		Capital.	Reserve of Profits after deducting for half-year's Dividend.	Total.	Deposits.	Notes.	Acceptances.	Drafts.	Total.	Net Profits.	4% on Capital and Reserved Profits.	Amount.	Percentage on Total Liabilities to the Public.
		£	£	£	£	£	£	£	£	£	£	£	£ s. d.
1872 to 1876, both inclusive,	876	9,629	3,852	13,481	76,657	6,627	5,520	1,398	90,202	1,352	539	813	0 18 0
1877 to 1881, ,,	891	9,418	4,607	14,025	76,738	5,882	5,200	1,314	89,134	1,249	561	688	0 15 5
1882 to 1886, ,,	926	9,052	5,105	14,157	81,474	5,816	3,487	1,197	92,474	1,200	566	643	0 13 11
1887 to 1891, ,,	974	9,052	5,047	14,099	87,052	6,083	3,938	1,249	97,622	1,187	564	623	0 12 9

NOTE.—National Bank opened in London in 1864; Bank of Scotland in 1867; Royal Bank in 1874; Clydesdale Bank in 1877; Union Bank in 1878; British Linen Co. Bank in 1878; Commercial Bank in 1883.

This tabulated statement shows that notwithstanding the disappearance, in 1878, of the City of Glasgow Bank, the proprietary funds of the Banks have slightly increased in the twenty years, viz., from £13,481,000 to £14,099,000; that the liabilities to the public have increased from £90,202,000 to £97,622,000; that, on the other hand, throughout the whole period, the profits earned have steadily diminished, viz., from £1,352,000 per annum to £1,187,000, while the pure banking profit has also fallen still more considerably, viz., from £813,000 to £623,000, or 23 per cent. But while these figures all point in one direction, viz., to that of greater services rendered for smaller profits, this fact is, perhaps, even better shown by the downward progress of the percentage which the pure profits bear to the liabilities to the public. This, in the first quinquennium, was 18/ per cent.; in the second, 15/5 per cent.; in the third, 13/11 per cent.; in the fourth, 12/9 per cent. This appears to me to be a statement which ought to be eminently satisfactory to the public, and it is, I think, a complete answer to the charge that the Banks have used their virtual monopoly for their own aggrandisement.

But I return to the more comprehensive point of view from which the public interests in the matters under consideration ought chiefly to be regarded. I am old enough to remember the debates in Parliament which preceded the passing of the Bank Acts, and the alarm that arose throughout the United Kingdom when Sir Robert Peel's ideal of having only one Bank of Issue was being discussed. The people of Scotland

and Ireland made a gallant and successful defence of the rights of issue of their Banks, while the Country Banks of England, although strongly represented in Parliament, had to make large concessions, which crippled their power of expansion, and consequently their power of doing service, in a nation in which continued expansion has for generations been the synonym of vigorous commercial health. The circulation of the English Country Banks has accordingly dwindled to one-fourth of its former dimensions, while the Bank of England has all but attained to the full realization of Sir Robert Peel's idea of being sole Bank of Issue in England. Forty-seven years have passed away, and it is, therefore, not too soon to ask how far the great minister's expectation has been realized. Were Scotland and Ireland and the English country Banks all wrong in their contention? Is the Bank of England, now that she is in possession of almost the whole field of England, able "to regulate the issues" as it was intended she should do, and so to control the foreign exchanges and the influx and efflux of gold? Sir Robert Peel's words were:—[1] "The paper currency ought to be regulated by immediate reference to the foreign exchanges, and there ought to be early contraction of paper on the efflux of gold." He complained that "the Country Banks do not and cannot control their issues according to the state of the foreign exchanges," and, he added, "there is no sense of individual responsibility, each issuer says, and says naturally enough, 'It is in vain for me

[1] Reprint of Debates in House of Commons on Bank Bills. Cornelius Buck, London, 1875, pp. 26 and 27.

individually, to contract my issues when others will not do the same." What the Country Banks could not, and did not profess to, do, it was maintained that a single Bank could and would do. How, then, does this expectation tally with the facts of experience? We find Mr. Goschen proclaiming himself "to have been, and still to be, a Bank Charter Act man," and yet at the same moment calling, not upon the Bank of England to perform the duty expected of it by the author of the Act, but on the deposit Banks, though deprived of their ancient rights of issue, to take their share of the burden of the gold. I submit that it has been demonstrated beyond serious question that a single Bank of Issue, however powerful it may be, is no more able than were the old Country Banks to do what Sir Robert Peel expected of them. The amount of notes in circulation is regulated, not by the Banks, but by the people, and, although there may be much to be said for a single Bank of Issue, it must be recognised to be a highly artificial institution, requiring more than any other the full command of its resources.

A single Bank of Issue in a country possessing a highly-developed system of deposit banking, and comprising the greatest money market of the world, undertakes a duty which in its nature is unique. Non-issuing Banks undertake to pay, in gold, only the debts owing to their own customers, whose demands it is their duty to study and anticipate. But the single Bank of Issue has to deal with the difficulty that every human being, at home and abroad, who has bills, or securities, or property of any description,

saleable in this country, can possess himself of notes which operate as a key to the gold reserves of the issuing Bank. That would not be the case if every Bank issued notes, and still less would it be so if, as in Scotland, every Bank had agreed to issue no other than its own notes. Then the Banks, being all alike exposed to unforeseen demands, would be prompted by a common danger to follow a fairly uniform line of action. But the difficulty peculiar to the single Bank of Issue, serious enough in itself, has, with us, been enormously aggravated, as I have endeavoured to show, by the interference of the State in this the most sensitive part of the machinery of commerce, for the purpose of appropriating the profit, or a large share of it, which is produced by the fund of the note circulation,—whereas if this fund were invested in gold, as it ought, in the main, to be, and held as a reserve to be available temporarily in times of pressure to meet notes and all other obligations of the issuing Bank, the exceptional difficulties of the situation would be surmounted with comparative ease. How to bring about this more conservative monetary legislation is the question I have ventured to raise, and now commend to your earnest consideration.

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